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Page Denied

Top Secret

25X1



Contents



25X1

Iran-Iraq: *Fighting Intensifies* 5



25X1

China-India: *Beijing's Diplomacy*. 7

Angola-Namibia: *Debate Over SWAPO* 8

Haiti: *Possible Political and Economic Changes*. 9



25X1

Ethiopia-Sudan: *Rapprochement Ending*. 11

International: *Interest Rate Problems* 11

China: *Budget Increases* 12

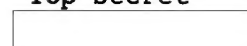


25X1



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25X1

Page Denied

Next 3 Page(s) In Document Denied

25X1

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IRAN-IRAQ: Fighting Intensifies

Both sides have launched new attacks after a lull of several days. [redacted]

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//Iraqi forces launched a counterattack yesterday against Iranian units holding sections of the Ahvaz-Khorramshahr road. The equivalent of two armored divisions reportedly are involved in this effort.// [redacted]

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//The Iraqis claim their Air Force is conducting widespread strikes against Iranian forces west of the Karun River. Iran is transferring major reinforcements into its bridgehead in that sector.// [redacted]

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The Iranians attacked yesterday west of Dezful and reportedly have scored some gains on the road to the border post at Fakkeh. [redacted]

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[redacted] the Iraqis are fighting harder than they did in late March. Moreover, the US Interests Section in Baghdad notes that public confidence has been increased by government claims of major gains and media coverage of Iranian losses. [redacted]

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The Interests Section also reports serious civil disturbances in the Kurdish cities of Irbil and As Sulaymaniyah. The demonstrations against the government appear well organized and timed to coincide with the Iranian offensive in the south. [redacted]

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Comment: //Despite the Iraqis' improved performance, they are unlikely to commit sufficient forces or have the determination to drive the Iranians off the Ahvaz-Khorramshahr road. The Iranian attacks [redacted]

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[redacted] probably are diversions aimed at preventing Iraq from transferring reinforcements south.// [redacted]

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//The demonstrations in the Kurdish cities--the first major demonstrations against the government since the war began--will be extremely unsettling to Iraqi leaders, who are already anxious to end the war.// [redacted]

25X1

25X1

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25X1

25X1

Page Denied

25X1

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CHINA-INDIA: Beijing's Diplomacy

China is accelerating efforts to normalize relations with India to capitalize on Prime Minister Gandhi's attempts to dilute her close ties with Moscow. []

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Chinese officials have informed the Indian Government that they are prepared to seek a comprehensive settlement of the border dispute during their second round of talks in New Delhi beginning on 17 May. One official hinted at Beijing's willingness to make concessions in the disputed Aksai Chin portion of the western frontier. []

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China also has proposed that each side open one consulate, that the Indian Defense Minister visit China this year, and that the Indians send a fact-finding group to Tibet. The Chinese previously have attempted to prove their good intentions in Tibet by seeking an accommodation with the exiled Dalai Lama, who resides in India. []

Comment: Beijing could return part of Aksai Chin without jeopardizing its strategic road through the region. If New Delhi indicates that it eventually will give up most of the Aksai Chin in return for Chinese recognition of Indian claims in the disputed eastern sector and for a few additional concessions, the Chinese would respond favorably. []

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At this point, however, the Chinese do not expect rapid progress. A lack of Indian flexibility probably would keep the Chinese from tabling their concessions, although Beijing will continue to hint at them to keep negotiations alive. []

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ANGOLA-NAMIBIA: Debate Over SWAPO

The rejection by the South-West Africa People's Organization and the Frontline States of the Western Contact Group's proposals on an electoral system for Namibia will cause new tensions in the Angolan Government. [redacted]

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Angolan officials had urged SWAPO to accept the proposals, but the other Frontline States--with the possible exception of Zambia--did little to support these efforts. Many members of the regime in Luanda are anxious for a settlement on Namibia, which they hope will bring an end to South African attacks in southern Angola. Most Angolan leaders believe that, unless the Namibian problem is resolved, they will never be able to cope with the South African - backed insurgents of the National Union for the Total Independence of Angola. [redacted]

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Comment: SWAPO's rejection of the proposals, which apparently was encouraged by Moscow and Havana, will intensify the debates in Luanda between pro-Soviet hardliners and black nationalists over continuing Angola's unconditional support for SWAPO and over the pervasive Cuban and Soviet presence in Angola. The hardliners have had the upper hand for some time, and the position of President dos Santos and the black nationalists probably has been weakened further by the lack of progress in the negotiations on Namibia. [redacted]

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As South African and UNITA attacks continue to cause casualties and to damage Angola's shaky economy, either side might attempt to force a change in the regime. [redacted]

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HAITI: Possible Political and Economic Changes

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President Jean-Claude Duvalier recently has taken several actions that could encourage the formation of an independent political opposition and prepare the way for fiscal reform. [redacted]

Duvalier has announced that municipal elections would be held next year and that he would establish a human rights commission. He invited Haiti's exile groups [redacted] to return and participate in the new political process. Last weekend, he fired two members of the Cabinet for obstructing the economic reform efforts of widely respected Finance Minister Bazin. [redacted]

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Comment: Duvalier's modest attempts at political liberalization and fiscal accountability appear to be part of a broader effort to disassociate his regime from that of his notorious father. The President realizes that efforts to overthrow his government are likely to become increasingly serious if he does not make some inroads on Haiti's many political and economic problems. His commitment to reform, however, will be measured by the holding of honest promised elections and by the performance of the human rights commission. [redacted]

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The President's reaffirmation of Bazin's mandate probably will persuade the IMF to go ahead with the first installment of a \$39 million loan. Although Brazil is not likely to extend an invitation to Duvalier, his willingness to travel reflects his new confidence in the strength of his position. [redacted]

25X1

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Page Denied

Top Secret

25X1

ETHIOPIA-SUDAN: Rapprochement Ending

Relations between Ethiopia and Sudan continue to deteriorate because of Addis Ababa's collaboration with Libya in the training of Sudanese dissidents and plots to assassinate President Nimeiri. Last week, Chairman Mengistu rejected an official Sudanese protest of the Ethiopian activity, charging that Khartoum's support of the Eritrean insurgents is the primary reason for the rising tensions. [redacted]

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Comment: //The Ethiopian leader is concerned over the inability of his forces to score a decisive military victory in Eritrea. His anti-Nimeiri activities apparently reflect in part his erroneous belief that the Sudanese are providing large-scale aid to the Eritreans. The Sudanese probably will ease their restraints on the Eritreans and other Ethiopian dissidents. Khartoum also will facilitate assistance to these groups from moderate Arab states.// [redacted]

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INTERNATIONAL: Interest Rate Problems

High interest rates in the major industrialized countries are likely to be a contentious issue at the economic summit in Versailles, with most of the participants blaming US rates for at least some of their problems. Nominal interest rates in the seven countries are falling, but, except in Japan, they remain near all-time highs. The high cost of credit is contributing to the reduction in real investment in all of the major industrialized countries. Canada, West Germany, Italy, and the US have been hardest hit, with estimated declines of 4 to 8 percent in investment from a year ago. [redacted]

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Comment: Steep US interest rates have contributed significantly to increased rates in Japan, West Germany, Canada, and the UK but have played only a minor role in France and Italy, where high inflation and large budget deficits probably have been the dominant factors. Inflation is slowing in Japan, West Germany, Italy, and the UK, and this--together with possible relaxations in monetary policies--is likely to help reduce interest rates in these countries, particularly if US rates also drop. On the other hand, ballooning government deficits or substantial increases in private demand for credit as economies start to recover would tend to keep rates up even if US rates were to decline. [redacted]

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CHINA: Budget Increases

Budget estimates for 1982 issued this week in Beijing indicate that military outlays will rise by 6 percent to \$9.9 billion and capital spending will increase by nearly 20 percent to \$16.5 billion. Despite these increases, the government hopes to keep the deficit down to \$2 billion through austerity measures, another domestic bond issue, and \$2.8 billion in foreign loans.

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Comment: The new budget reverses the trends in 1979-81 that showed defense spending declining from \$12.4 billion to \$9.3 billion and budget-financed investment outlays--excluding foreign loans--falling from \$24.7 billion to \$13.9 billion. The reversal reflects pressure from those in the leadership, including representatives of the Army, concerned over military preparedness and the slowdown in economic growth.

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Next 2 Page(s) In Document Denied

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